

# **BOUNTIFUL REDEVELOPMENT AGENCY**

## **Meeting Minutes of: Tuesday, April 14, 2009**

Location: City Council Chambers, Bountiful City Hall, 790 South 100 East, Bountiful, Utah

Present: Chairman, Joe Johnson, John M. Knight, Acting Chairman, Board Members Beth Holbrook, John M. Knight (6:51 pm), Scott Meyers, Fred Moss, Tom Tolman, City Attorney Russell Mahan, City Manager Tom Hardy, City Engineer Paul Rowland, and Redevelopment Director Aric Jensen.

### **Welcome**

Chairman Mayor Johnson opened the meeting at 6:48 p.m. and welcomed those in attendance.

### **Agenda Items**

1. Consider approval of the minutes from the July 8, 2008 and December 9, 2008 Redevelopment Agency meetings.

Board Member Fred Moss made a motion to approve the minutes for July 8, 2008 and December 9, 2008 as drafted. Board Member Beth Holbrook seconded the motion and voting was unanimous in favor, (John M, Knight was not present for this item).

2. Consider a Redevelopment Loan Request from The Square at 2600, Kevin Allcott, Colonial Square Owners Association, Applicant.

Mr. Jensen presented the staff report. Mr. Kevin Allcott, representing the property owners' association for the Square at 2600 S., requests a business enhancement loan for common area improvements. These are the same improvements that were approved by the Planning Commission and City Council last year, but were not built due to cost restraints. However, with the reduction in construction costs and the additional year to set aside funds, the property owners are now ready to begin construction.

The total cost of the proposed improvements is \$1,267,000, and a copy of the approved site plan is included in the request as Exhibit A (approximately page 10). The applicants anticipate providing \$302,000 in funds, and will need to secure financing for the balance of \$965,000. The applicants have requested that the RDA finance the entire \$965,000 for the entire 10 year period (without a 5 year call), for the reasons listed in application. Staff is not comfortable with this proposal, for myriad reasons, but the primary three are as follows:

First, the loan would be secured by rent assignments, and not by a trust deed, because the common areas cannot be encumbered. The applicants use this fact to argue in favor of the increased loan, saying that it limits their ability to obtain financing, and increases financing costs to such a degree that they would have to reduce the project scope by approximately \$100,000. Staff understands these concerns, but is not willing to recommend exposing the City to such a degree. However, later in this report, Staff will suggest some alternate ways to structure the project financing in order to mitigate any losses due to market financing.

Second, the RDA would be the sole lender on this project, and our long standing policy is that we do not replace lending institutions; rather we complement them by providing supplemental financing at reduced rates and in junior positions so that a project can qualify for a market rate loan. This is also the basis behind our policy of not lending more than 50% of total project value.

Lastly, simple logic dictates that if the market won't give favorable financing on a project with a loan to value ratio of 50% or better, then the RDA probably shouldn't either.

Staff recommends approving a loan with the terms listed below. Please notice the flexibility included in the Amortization Period. Market rate loans on this type of a project will typically have 3 to 5 year amortization periods, which results in a larger monthly payment than our 10 year amortization schedule. The applicants are constrained by their monthly CAM fee revenues, therefore, if the RDA allows the applicants to make reduced payments up front, more money can be allocated to pay down the shorter term market loan. Furthermore, by back loading the loan, the applicants pay down the balance with future dollars that effectively cost less.

Loan Value	Up to \$633,000, (not to exceed 50% of the actual project costs).
Amortization Period	10 years, fully amortized, no call, with an option for an interest only or reduced principal payment period to compensate for the increased costs and shorter amortization period of the primary loan.
Interest Rate	3%
Payment Schedule	Monthly

Other

This offer sunsets April 14, 2010, is not assignable, and may not be extended.

Mayor Johnson – clarified that RDA does not want to take away from lending institutions.

Mr. Jensen- we are a city municipality and our job is to make good but difficult projects work, not to be a lending institution. This is a difficult project because the colonial square is a group of individual property owners that have a large common area. The common area is owned in common by the business owners and a lien or encumbrance can't be put on a common area within the project. They do not have any collateral other than the business or the properties themselves. This makes it very difficult to get financing, which is one of the reasons why they have asked the RDA to accept such a large loan. However, we believe that if they put up 25% and the city puts in 50%, they would need another 25% funded by a lender, even in this difficult climate we believe that they could get financing. As such, the City is concerned about funding such a large portion of a project.

Mayor Johnson – the loan amount is about 3 times the amount we normally loan.

Mr. Jensen – we are going out on a limb with the \$633,000 loan, even though this is an important project and probably could not be done without the City's participation and help in some degree.

Mr. Moss - didn't we make a \$1,000,000 to someone in the past?

Mr. Jensen – RDA approved a loan for \$1,000,000 out of a \$3,500,000 project with John Hepworth, however the loan was not funded because the project was never built.

Mr. Moss - so the percentage amount is the concern not the dollar amount?

Mr. Jensen – the dollar amount is a concern, but the percentage amount is the main concern.

Mr. Moss - if this was to be paid back through rents, what would happen if several businesses went out of business. Would the remaining businesses be responsible to pick up the extra amount? How is the City protected?

Beth Holbrook – the building owners should be responsible for their portion regardless if there is a business renting that space or not.

Aric Jensen – the loan would need to be structured so that property owners are responsible for their portion regardless of what rents they are collecting.

Rusty Mahan – we would need to see the Condo Declaration and the By-Laws to know how to structure the loan.

Aric Jensen – when we did the loan for Village on Main, we made them sign a Promissory Note, both, individually and as the business. This project is similar to the Village on Main project.

Kevin Allcott – this would be an assignment of the association's ability to collect common area and maintenance fees, the declaration allows us to file a lien on each property. The lien is tied to the real estate not the rents of the businesses. The owners are ultimately responsible and the Association collects that. They have already been collecting money for this project. They have a built in a contingency amount to help pay if any of the owners are unable to.

Kevin Allcott – he feels it becomes problematic when each owner is asked to individually guarantee the entire loan. This is where the problem is with the banks as well. Last year it was not prudent to do the project because you could not buy asphalt. So they have saved money and negotiated with contractors. By waiting a year, we have reduced our costs to do this project in excess of \$200,000. We like to look at this project as a long term project not just a parking lot project. Over the last ten years several improvements have been made.

Aric Jensen – if the board decided to go the full loan amount, some of the provisions would not apply. If we went with the recommend amount up to \$633,000 (not to exceed 50% of the project costs). There are some options that we could do: we could back load the loan, where they make larger payments near the end, but they could pay off the market loan first. If the board wants to go with the entire loan request, that figure would be: 10 years fully amortized no call, 3% interest, monthly payments. If you want to go something less than that we recommend what is in the staff report.

Fred Moss – we want to make sure that we don't structure this where they are getting into a failure or where we are hindering the viability of the project.

Scott Meyers – we don't want to be the sole lender.

Scott Meyers – He would like a list of current and how far back they have rented, amount of rents and home owners dues.

Scott Meyers and Beth Holbrook – suggested tabling it for more discussed and review.

Rusty Mahan – We could have staff speak with them and look at their documents as discussed and find out what kind of security they can give and get the information to the

Board Members.

Fred Moss – If you had to go to a secondary loan, even we went to a \$700,000 loan, what is your time line for getting started.

Kevin Allcott – they are ready to start the project. They are not going to do a deal that doesn't work financially for us. He has a concern about saying the loan is for a certain amount up to 50% of the project and then having to reduce the scope of the work to make it stay within the monthly budget.

Mayor Johnson – That has been the philosophy that we don't tie up all the RDA funds on one or two projects, with other smaller business and opportunities to get started in our community. While we recognize your need, I am concerned with 1/3 of it going to one project. We don't know what other projects we might have come in front of us.

Kevin Allcott – We appreciate that this project is stretching the guidelines; with this one project you are helping numerous businesses. There are 400 employees at the Square and 20 -25 businesses.

Fred Moss – we would be willing do the \$633,000 or more depending on the comfort level of how it would be secured.

Mayor Johnson – I would like to come to a decision about a loan amount, even if it is not binding, so the project can move forward.

Scott Meyers and Beth Holbrook – this center needs this improvement.

Fred Moss – he would feel comfortable with \$700,000 contingent upon approved...

Scott Meyers – the number is a good number, this will affect a lot of jobs for the area. I am OK with \$700,000 - \$750,000, just as long as we secure ourselves.

Beth Holbrook – I agree

Board Member Beth Holbrook made a motion to extend up to \$750,000 for The Square at 2600 with amortization period as outlined by staff, contingent upon satisfactory security arrangements. Fred Moss seconded the motion. Voting was unanimous in favor.

Loan Value	Up to \$750,000 of \$1,267,000 budget, (59.2% of the actual project costs).
Amortization Period	10 years, fully amortized, no call, with an option for an interest only or reduced principal payment period to compensate for the increased costs and shorter amortization

	period of the primary loan.
Interest Rate	3%
Payment Schedule	Monthly
Other	This offer sunsets April 14, 2010, is not assignable, and may not be extended.

### **Adjourn**

Chairman Johnson ascertained that there were no other items to discuss. Board Member Fred Moss made a motion to adjourn the meeting. Beth Holbrook seconded the motion. Voting was unanimous in favor. The meeting was adjourned at 7:20 p.m.